

# CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION INVESTMENT COMMITTEE

### MINUTES OF MEETING OPEN SESSION

August 14, 2006

The Investment Committee met on Monday, August 14, 2006 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 9:20 a.m. and the following members were present:

Charles Valdes, Chair
George Diehr, Vice Chair
Philip Angelides, represented by Christine Solich
Marjorie Berte
Robert F. Carlson
Rob Feckner
David Gilb, represented by Debbie Endsley
Priya Mathur
Tony Oliveira
Kurato Shimada
Maeley Tom
Steve Westly, represented by Karen Greene Ross

Investment Committee members excused: Mike Quevedo, Jr.

#### AGENDA ITEM 2 – APPROVAL OF JUNE 2006 MEETING MINUTES

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** that the June 19, 2006 Open Session minutes be approved as presented.

#### AGENDA ITEM 3 – COST EFFECTIVENESS MEASUREMENT (CEM) REPORT

Russell Read, Chief Investment Officer, presented the item. Roz Hewsenian and Andrew Junkin, Wilshire Associates, and Nori Gerardo Lietz, Pension Consulting Alliance, were available to respond to questions from the Committee.

Sandy Halim, CEM Inc., presented the annual information slide presentation on the CalPERS' defined benefit cost effectiveness analysis and peer benchmarking report.

During a lengthy discussion, the Committee provided input regarding content and format for future reports.

The Committee accepted the report with direction from the Chair to:

- Provide to the Investment Committee follow up historical information on implementation value added and asset management costs.
- Provide the Investment Committee with an expanded Wilshire comment letter, which includes a report on historical net costs.
- Provide a copy of the complete CEM report, as well as Wilshire's comments, to all consultants and experts in the next asset allocation workshop.

#### AGENDA ITEM 4a - REAL ESTATE, Selection of International REIT Managers

Al Fernandez, Interim Senior Investment Officer, and Jane Delfendahl, Investment Officer, presented the item. Nori Gerardo Lietz, Pension Consulting Alliance, was available to respond to questions from the Committee.

On March 16, 2006, a RFP was issued for International Public Real Estate Equity Securities (PREES) Management – Spring-Fed Pool. Staff described the proposal review and scoring process. The next step is for the Investment Committee to either interview the finalists or select the five managers recommended by the Evaluation Committee.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve the following managers for inclusion in the International Public Real Estate Equity Securities (PREES) Spring-Fed Pool, subject to satisfactory due diligence completion and satisfactory agreement negotiations:

Citigroup Property Investors
European Investors Incorporated
Morgan Stanley Investment Management
PRESIMA Inc.
RREEF America LLC

Staff requested that they be authorized to determine whether to include an annual review provision in the contracts. The Committee approved staff discretion to determine the terms of the contracts.

#### AGENDA ITEM 4b – REAL ESTATE, R Street Subcommittee Report

Ms. Solich stated "As noted in prior statements on this item, the Treasurer has disqualified himself from participating, making or attempting to influence any governmental decisions regarding residential development within the R Street Project area, including any update on residential development during the R Street Subcommittee report to be made during open session (Item 4b) and closed session (Item 3a) on August 14, 2006. In an abundance of caution and consistent with those prior statements, the Treasurer will continue to disqualify himself from this matter." The Treasurer's representatives left the room for this item.

Diana Proctor, Project Manager, presented the August 11, 2006, R Street Subcommittee meeting summary, which included updates on residential development and the Manager's Report.

The Committee accepted the information report.

#### AGENDA ITEM 5 – ALTERNATIVE INVESTMENT MANAGEMENT (AIM) PROGRAM

There were no items to report.

## AGENDA ITEM 6a – GLOBAL FIXED INCOME, Selection of International Fixed Income Managers

Curtis Ishii, Senior Investment Officer, Eric Busay, Portfolio Manager, Omid Rezania, Investment Officer, and Jonathon O'Donnell, Investment Officer, presented the item. Michael Schlachter, Wilshire Associates, was available to respond to questions from the Committee.

On March 22, 2006, a RFP was issued for international fixed income managers. CalPERS' current managers were not required to re-apply, but will work under their existing annual renewable contracts. Staff described the proposal review and scoring process and recommended six firms for inclusion in the International Fixed Income Spring-Fed Pool.

On **MOTION** by Mr. Feckner, **SECONDED** and **CARRIED** to approve the following managers for inclusion in the International Fixed Income Spring-Fed Pool:

AllianceBernstein L.P.
BlackRock
Brandywine Asset Management, LLC
Mondrian Investment Partners Limited
Morgan Stanley Investment Management
Pacific Investment Management Company, LLC (PIMCO)

The contracts will be reviewed annually.

#### AGENDA ITEM 7a – GLOBAL EQUITY, Selection of U.S. Equity Growth Managers

Christy Wood, Senior Investment Officer, and Mary Cottrill, Senior Portfolio Manager, presented the item. Andrew Junkin, Wilshire Associates, was available to respond to questions from the Committee.

On January 13, 2006, a RFP was issued for U. S. Equity Growth Manager Spring-Fed Pool. Staff described the proposal review and scoring process and recommended six products for inclusion in the Spring-Fed Pool. The next step is for the Investment Committee to either interview the finalists or select the six products recommended by staff and Wilshire Associates.

#### On **MOTION** by Mr. Feckner, **SECONDED** and **CARRIED** to:

 Approve the following managers for inclusion in the U.S. Equity Active Growth Manager Spring-Fed Pool:

Goldman Sachs Asset Management Jacobs Levy Equity Management Marvin & Palmer Associates, Inc. Turner Investment Partners

2. Approve the following managers for inclusion in the U.S. Equity Enhanced Indexing Growth Manager Spring-Fed Pool:

Intech (Broad Large Capital Growth)
Intech (Large Capital Growth)

3. Approve the use of annual review contracts for both of these U.S. Equity Growth Manager Spring-Fed Pools.

### AGENDA ITEM 7b – GLOBAL EQUITY, Corporate Governance Co-Investment Strategy

This item was postponed to a future meeting.

# AGENDA ITEM 7c – GLOBAL EQUITY, Corporate Governance Internal Staff Working Group Update

Christy Wood, Senior Investment Officer, and Dennis Johnson, Senior Portfolio Manager, presented the item. Peter Mixon, General Counsel, was available to respond to questions from the Committee.

#### 1. Stock Option Backdating Update

Staff provided an update on CalPERS' option backdating company engagement initiative. To date, initial engagement letters have been sent to 40 portfolio companies on the risk they pose to CalPERS' investment portfolio for the allegation of backdating stock options. Staff has received both written and verbal responses to the initial engagement letter from 18 portfolio companies. The next update on this subject to the Investment Committee will be during the next Executive Compensation Strategic Plan Update.

There was discussion about option backdating class action lawsuits and CalPERS' level of involvement at this time. The Chair directed the General Counsel to consider submitting a position paper or letter to the American Bar Association on the issue of stock option backdating.

#### 2. SEC Executive Compensation Disclosure

Staff provided an overview of the formal executive compensation disclosure rule issued by the SEC. A comparative analysis was presented of the disclosure issues, CalPERS' recommendations, and SEC's decision to include or not include the recommendation in the rule. The compliance date for this rule is December 15, 2006. Staff will use this rule as a tool for the 2007 proxy voting season.

The Committee accepted the information reports.

### AGENDA ITEM 7d – GLOBAL EQUITY, Internal Management of International Indexation Assets

Christy Wood, Senior Investment Officer, Eric Baggesen, Senior Portfolio Manager, and Daniel Bienvenue, Portfolio Manager, presented the item. Michael Schlachter, Wilshire Associates, was available to respond to questions from the Committee.

In April 2005, CalPERS' Investment Committee approved the internal management of a portion of the international equity index portfolio that historically had been externally managed. This action reflected the growth in internal capability engendered through the addition of experienced investment professionals and broadened technological tools. This internal effort has resulted in portfolio growth, management fee cost savings, and value added portfolio returns. Staff seeks Investment Committee approval to internalize the remainder of the international equity index assets. This action will generate further cost savings and create consistency with the full internal management of all global equity index portfolios.

On **MOTION** by Mr. Feckner, **SECONDED** and **CARRIED** to bring the remainder of CalPERS' international equity index assets under internal management.

#### **AGENDA ITEM 8 – POLICY SUBCOMMITTEE REPORT**

Russell Read, Chief Investment Officer, presented the item.

By consent, the Committee approved:

- a. Fixed Income Policy Revision of Credit Enhancement Program
- b. Miscellaneous Policy Revision of Directed Brokerage Arrangement

### AGENDA ITEM 9a – CHIEF INVESTMENT OFFICER'S / ASSISTANT EXECUTIVE OFFICER'S REPORT, Consolidated Investment Activity Report

Russell Read, Chief Investment Officer, presented the item.

The Committee accepted the Consolidated Investment Activity Report. The total market value of the fund as of June 30, 2006, was approximately \$208.2 billion and the total book value was approximately \$164.5 billion.

### AGENDA ITEM 9b - CHIEF INVESTMENT OFFICER'S / ASSISTANT EXECUTIVE OFFICER'S REPORT, Assistant Executive Officer's Status Report

Russell Read, Chief Investment Officer, presented the item.

The Committee accepted the information report.

# AGENDA ITEM 9c – CHIEF INVESTMENT OFFICER'S / ASSISTANT EXECUTIVE OFFICER'S REPORT, Wilshire Study on CalPERS Corporate Governance Program

Michael Schlachter and Andrew Junkin, Wilshire Associates, presented the report and responded to questions from the Committee.

This is the third Wilshire report on the economic value of CalPERS' corporate governance activities. The study reviews CalPERS' activist program by studying the economic benefits achieved with respect to 122 companies engaged by CalPERS over the time period 1987 through mid-2004. These companies were engaged by CalPERS through shareholder proposals, the Focus List, and other governance methods.

The Committee accepted the informational report.

#### AGENDA ITEM 10 - DRAFT SEPTEMBER 2006 AGENDAS

The Committee accepted the following proposed agendas:

- a. Investment Committee September 11, 2006
- b. Natural Resources/Commodities Workshop September 12, 2006

#### AGENDA ITEM 11 – PUBLIC COMMENT

There were no comments from the public.

#### RECOGNITIONS

At this point Patricia Pinkos was acknowledged for a very distinguished 20 years with CalPERS. Most recently she served as the Senior Investment Officer of the Asset Allocation and Risk Management Unit. Chairman Valdes highlighted her CalPERS career, recognized her dedication and distinctive service, and wished her all the best in her retirement.

Roz Hewsenian was acknowledged for her 20 years of expertise to the Investment Committee as Lead Consultant from Wilshire Associates Inc. Chairman Valdes and Board Member Carlson highlighted her accomplishments, involvement and dedication to CalPERS and wished her all the best in her new endeavors.

The meeting was adjourned at 11:00 a.m.

The next meeting of the Committee is scheduled for September 11, 2006 in Sacramento, California.

FRED BUENROSTRO
Chief Executive Officer